

Message Text

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ACTION EA-09

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E.O. 11652: N/A

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SUBJECT: SINO-FRG TRADE

1. SUMMARY. SINO-FRG TRADE INCREASED AGAIN IN 1975 AND SHOULD CONTINUE TO GROW THIS YEAR AS WELL. THE PRC WILL HAVE DIFFICULTY IN DECREASING ITS TRADE DEFICIT WITH THE FRG; OIL EXPORTS WILL PROVIDE LITTLE HELP. END SUMMARY

2. THE LEVEL OF SINO-FRG TRADE IN 1975 CONTINUED ITS STEADY RISE OF THE LAST FEW YEARS. BASED ON PROJECTIONS PROVIDED USLO BY FRG ECON COUNSELOR TAFEL ON JANUARY 21, TOTAL TURNOVER INCREASED TO ABOUT \$720 MILLION IN 1975 FROM \$652 MILLION IN 1974. THE FRG SURPLUS DECREASED \$316 MILLION IN 1974 TO ABOUT \$280 MILLION IN 1975.

3. COMPOSITION OF FRG IMPORTS REMAINED MUCH THE SAME IN 1975 AS IN PREVIOUS YEARS; FOODSTUFFS, ANIMAL

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BY-PRODUCTS, ARTS AND CRAFTS, AND TEXTILES WERE

THE MAIN COMPONENTS. FRG EXPORTS SHOWED SOME CHANGE IN 1975, HOWEVER, IRON AND STEEL SHIPMENTS, A LARGE PROPORTION OF WHICH WERE STEEL PIPE, DROPPED IN VALUE FROM 60 PERCENT OF TOTAL EXPORTS IN 1974 TO 50 PERCENT IN 1975. IN CONTRAST, EXPORTS OF FRG MACHINERY WERE UP FROM 15 PERCENT TO 30 PERCENT.

4. FOR 1976, NO MAJOR CHANGES IN THE TRADE PATTERNS ESTABLISHED IN THE LAST FEW YEARS WERE PREDICTED BY TAFEL. FRG EXPORTS SHOULD CONTINUE THEIR STEADY GROWTH THROUGH THIS YEAR. MACHINERY SHOULD CONSTITUTE AN EVEN LARGER PERCENTAGE OF THE TOTAL AS EQUIPMENT FOR THE GERMAN WHOLE PLANTS BEGINS TO ENTER CHINA. FRG IMPORTS WILL CONTINUE TO GROW SLOWLY, LIMITED BY MANY OF THE SAME PROBLEMS WHICH HANDICAP SALES TO THE U.S.: INELASTICITY OF DEMAND (FOODSTUFFS), STYLING PROBLEMS (ARTS AND CRAFTS) AND SUPPLY SHORTAGES (TEXTILES).

5. OIL IS UNLIKELY TO BECOME AN IMPORTANT FACTOR IN SINO-FRG TRADE. TAFEL SAID SEVERAL GERMAN FIRMS WERE EACH OFFERED ONE MILLION TONS OF TAKANG CRUDE DURING DECEMBER. THE FIRMS CONSIDERED THE POSSIBILITY OF BUYING THE OIL FOR RESALE TO THIRD COUNTRIES IN ASIA, BUT THE CHINESE WERE UNENTHUSIASTIC ABOUT SUCH ARRANGEMENTS. THE GERMANS, IN TURN, WERE DETERRED BY THE HIGH COST OF TRANSPORTING CHINESE CRUDE TO EUROPE. TWO POSSIBLE METHODS FOR REDUCING THESE COSTS WERE CONSIDERED: TRANSSHIPMENT IN SINGAPORE AND THE USE OF LIGHTERS TO LOAD LARGE TANKERS OUTSIDE OF CHINESE PORTS. (TAFEL SAID THE ROMANIANS HAD USED THE LATTER METHOD TO LOAD ONE 80,000 TON SHIP WITH SHENG LI CRUDE DURING 1975.) NEITHER OF THESE SEEMED ATTRACTIVE TO THE GERMANS, BUT NO FINAL DECISION WAS MADE.

6. ON THE GOVERNMENTAL LEVEL, TAFEL SAID THE PRC WAS SCHEDULED TO BEGIN "FORMAL NEGOTIATION" OF A TRADE AGREEMENT WITH THE EC IN LATE FEBRUARY OR EARLY MARCH, FOLLOWING WHAT HAS NOW BEEN MONTHS OF EXHAUSTIVE REQUESTS BY THE CHINESE FOR EXPLANATIONS OF EC PRO-

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CEDURES AND REGULATIONS.
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